

August 12, 2003
New Florence, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

FARMERS MUTUAL REINSURANCE COMPANY OF MISSOURI

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 733 Highway J, New Florence, Missouri 63363, telephone number (573) 564-2765. This examination began on August 11, 2003, and was concluded on August 12, 2003, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1997, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 1998, through December 31, 2002, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1997, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management and Control

Comment: The 1997 Annual Statement reported that the Company had eight (8) Directors. The Company actually had nine (9) Directors at December 31, 1997. Timothy Nystrom, who was not a Director, was listed as a Director, and two Directors were not listed, John Hall and Robert Decker. It is recommended that the Company report its Directors accurately in future Annual Statements.

Company Response: The Company will accurately report its directors in future annual statements.

Current Findings: The 2002 Annual Statement accurately reports the directors of the Company.

Corporate Records

Comment: The Company's Articles of Incorporation state the annual meeting shall be held at the Company's home office of 11 North Water Street, Liberty, Missouri. The Company moved its home office in 1998 from 11 North Water Street, Liberty, Missouri, to 733 Highway J, New Florence, Missouri. It is recommended that the Company amend its Articles so that they do not indicate an invalid home office. Additionally, the Board Minutes do not indicate Board approval for moving the home office. It was recommended that such approval be obtained.

Company Response: The Articles will be amended to state that the annual meeting will be held at a location other than 11 North Water Street, Liberty, Missouri.

Current Findings: The Articles of Incorporation were amended to remove the former office address. Approval of the amendment was documented in the Board of Directors' and membership meeting minutes.

Employee Benefits

Comment: It was noted that the only year under examination for which salaries were approved was 1995. It was recommended that the Board of Directors approve salaries each year.

Company Response: The Board of Directors will approve salaries.

Current Findings: The Board of Directors approved the salary of the Company's employee for each year under examination, and such approval was documented in the Board of Directors meeting minutes.

HISTORY

General

The Company was originally organized and incorporated on February 22, 1922, solely to provide reinsurance to other Missouri Mutual Companies. In the early 1960's, the Company reinsured more than sixty companies. As of December 31, 2002, the Company reinsured five companies. The Company operates under Sections 380.011 through 380.151 RSMo (Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Thursday in January, at a place selected by the Board of Directors. Membership consists of the Missouri Mutual Companies that have reinsurance contracts with the Company. Special meetings of the members may be called by the Board of Directors at any time. Each member is entitled one vote on each question.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be members of one of the companies reinsured by the Company. The Board of Directors meets approximately every quarter, and the directors are compensated \$250 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2002, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
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H. Robert Decker 18061 Monroe Road 182 Lentner, Missouri	Farmer	2000-2003
Melvin Eggerman Route 1 Box 56 Lockwood, Missouri	Farmer	2001-2004
Johnny Fry 707 Meadowcrest Lane Montgomery City, Missouri	Contractor/Insurance Agent	2000-2003
Clell Furnell 401 South Lamine Sedalia, Missouri	Insurance Officer/Agent	2001-2004
John L. Hall 733 Highway J New Florence, Missouri	Insurance Agent/Farmer	2001-2004
Garnett M. Peters III 11 North Water Street Liberty, Missouri	Insurance Agent	2002-2005
Charles Rupp Route 2 Box 92 Purdy, Missouri	Retired High School Principal	2002-2005
James Westermier 26218 Highway V Sedalia, Missouri	Farmer	2002-2005
Artie Whelan 34307 Monroe Road 346 Monroe City, Missouri	Farmer	2001-2004

The Board of Directors elects for a term of one year a President, Vice-President and Secretary, who may also serve as Treasurer when so designated by the Board.

The officers of the Company serving at December 31, 2002, were as follows:

Melvin Eggerman	President
H. Robert Decker	Vice-President
John L. Hall	Secretary-Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On December 10, 1998, the Company amended the Articles of Incorporation to change the location of the annual membership meeting from its former home office in Liberty, Missouri, to a location to be designated each year by the Board of Directors or the Company President

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000. The fidelity bond coverage meets the amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries directors' and officers' liability coverage with an aggregate limit of \$2,000,000 and a \$500 deductible for each director and officer each loss and a \$2,500 deductible in aggregate as it pertains to directors and officers liability.

The Company does not carry agents errors and omissions insurance, as the Company has no agents.

The Company does not carry business owner's coverage as the Company does not own its home office or any substantial business property.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one part-time employee. The employee does not receive any benefits other than a monthly salary. It appears the Company has made adequate provisions in its financial statements for these benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as a Missouri Mutual Company operating under Sections 380.011 through 380.151 RSMo (Missouri Mutual Companies).

The Company's business is generated through reinsuring other Missouri Mutual Companies for a portion of their losses developing out of fire and wind coverages. The Company's territory includes any county in Missouri in which the ceding companies operate.

Policy Forms and Underwriting Practices

The Company writes reinsurance under four standardized contracts assuming fire risks only and one contract assuming fire and wind risks. For the four years 1998 through 2001, the Company returned 100% of the fire premium to the cedents. In 2002, the Company instituted a policy to return 100% of fire premium to companies that maintained a six-year loss ratio of less than 100%. Under this practice, only one of the five cedents received the premium refund.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
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2002	\$2,982,832	\$0	\$92,724	\$366,422	\$175,249	\$(432,578)	\$(257,329)
2001	3,240,161	0	6,470	333,691	185,176	(41,874)	143,302
2000	3,096,859	0	6,470	147,888	195,423	(193,292)	9,112
1999	3,087,747	0	6,470	90,170	207,265	(150,868)	(56,397)
1998	3,031,350	0	6,470	36,934	221,093	(2,021)	222,760

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Direct	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Assumed	6,470	6,470	6,470	6,470	92,724
Ceded	<u>(22,572)</u>	<u>(20,390)</u>	<u>(20,047)</u>	<u>(30,470)</u>	<u>(67,392)</u>
Net	(\$16,102)	(\$13,920)	(\$13,577)	(\$24,000)	\$25,332

Assumed

The Company assumes business from five Missouri Mutual companies under five individual per risk excess of loss with annual aggregate limit contracts.

The contract with Farmers Mutual Insurance Company of Clay County, Missouri (FMICC) covers wind and fire risks. For fire risks, FMICC retains \$20,000 per risk and the Company is liable for the excess with a per risk limit of \$500,000. Under the annual aggregate portion of the agreement, the Company is liable for losses in excess of 80% of FMICC's annual premium income, with an annual limit of \$1,000,000. For wind risks, FMICC retains \$20,000 per occurrence, and the Company is liable the next \$500,000, with an annual limit of \$1,000,000. Fire premium is 11% of fire premium income, with an annual minimum of

\$3,500. Wind premium is 5% of wind premium income, with an annual minimum of \$1,000. In addition FMICC pays 100% of the cost of catastrophic reinsurance purchased for wind reinsurance by the Company.

The contract with Farmers' and Laborers' Mutual Insurance Company of Montgomery County, Missouri (FLMIC) covers fire risks. FLMIC retains \$20,000 per risk and cedes the excess to the Company, limited to \$500,000 per risk. Under the annual aggregate portion of the agreement, the Company is liable for losses in excess of 80% of FLMIC's annual premium income, limited to \$1,000,000 per year. Premium is 11% of fire premium income, with an annual minimum of \$40,000.

The contract with Monroe County Farmers Mutual Insurance Company (MCFMI) covers fire risks. MCFMI retains \$20,000 per risk and cedes the excess to the Company, limited to \$500,000 per risk. Under the annual aggregate portion of the agreement, the Company is liable for losses in excess of 80% of MCFMI annual premium income, limited to \$1,000,000 per year. Premium is 11% of fire premium income, with an annual minimum of \$8,000.

The contract with Farmers Mutual Insurance Company of Pettis County (FMICP) covers fire risks. FMICP retains \$20,000 per risk and cedes the excess to the Company, limited to \$500,000 per risk. Under the annual aggregate portion of the agreement, the Company is liable for losses in excess of 80% of FMICP annual premium income, limited to \$1,000,000 per year. Premium is 11% of fire premium income, with an annual minimum of \$7,000.

The contract with Lutheran Fire and Lightning Insurance Company (LFALI) covers fire risks. LFALI retains \$20,000 per risk and cedes the excess to the Company, limited to \$500,000 per risk. Under the annual aggregate portion of the agreement, the Company is liable for losses in excess of 80% of LFALI annual premium income, limited to \$1,000,000 per year. Premium is 11% of fire premium income, with an annual minimum of \$7,000.

Ceded

The Company has all of its reinsurance with Lloyds of London (reinsurer) through intermediary Benfield Blanch, Inc. The Company has a property per risk excess of loss agreement for fire risks throughout Missouri and for wind risks in Clay County, Missouri. The Company retains \$100,000 on each risk, ceding the excess of up to \$450,000 per risk, per occurrence to the reinsurer. Premium is 64.4% of new written premium income, with a minimum annual premium of \$58,000. The Company has an excess property catastrophic agreement for fire risks throughout Missouri and for wind risks in Clay County, Missouri. The Company retains \$40,000 per occurrence, ceding the excess of up to \$500,000 per occurrence to the reinsurer, limited to \$1,000,000 for all occurrences during any year. Annual premium is \$8,750.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. The Company's CPA, Van Quaethem, Morgan & Thurmon, P.C. prepares the Annual Statement and tax returns and performs an annual audit.

It was noted that the "Assessments/Premium" and "Paid for Pro-Rata or Quota-Share Reinsurance" sections of Page 2 of the Annual Statement did not accurately depict the actual amounts received and paid by the Company during certain years under examination. It is recommended the Company properly complete the Annual Statement using accurate data.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the

Company for the period ending December 31, 2002, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2002

Bonds	2,278,884
Stocks	287,046
Cash on Deposit	416,902

Total Assets	\$2,982,832
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2002

Total Liabilities	\$ 0

Guaranty Fund	\$ 0
Other Surplus	2,982,832

Total Surplus	\$ 2,982,832

Total Liabilities and Surplus	\$ 2,982,832
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STATEMENT OF INCOME
December 31, 2002

Net Assessments	\$ (56,950)
Net Losses Incurred	(341,180)
Other Underwriting Expenses	(34,448)

Net Underwriting Income (Loss)	\$ (432,578)

Investment Income	\$ 175,249

Gross Income	\$ (257,329)
Federal Income Tax	0

Net Profit/Loss	\$ (257,329)
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2002

Policyholders' Surplus, December 31, 2001	\$ 3,240,161
Net Income (Loss)	(257,329)

Policyholders' Surplus, December 31, 2002	\$ 2,982,832
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Accounts and Records

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SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Farmers Mutual Reinsurance Company of Missouri during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2003.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance